

# SENATE BILL REPORT

## SB 5154

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As Reported By Senate Committee On:  
Consumer Protection & Housing, February 22, 2007

**Title:** An act relating to tax relief to promote affordable housing.

**Brief Description:** Providing tax relief to promote affordable housing.

**Sponsors:** Senators Franklin, Brandland, Kohl-Welles, McAuliffe, Weinstein, Carrell, Kilmer, Kastama, Keiser, Poulsen, Kauffman, Swecker, Pridemore, Rockefeller, Zarelli, Rasmussen, Regala, Hargrove, Sheldon, Hatfield, Jacobsen, Shin and Parlette.

**Brief History:**

**Committee Activity:** Consumer Protection & Housing: 1/19/07, 2/22/07 [DPS-WM].

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### SENATE COMMITTEE ON CONSUMER PROTECTION & HOUSING

**Majority Report:** That Substitute Senate Bill No. 5154 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Weinstein, Chair; Kauffman, Vice Chair; Honeyford, Ranking Minority Member; Delvin, Haugen, Kilmer, McCaslin and Tom.

**Staff:** Jacob White (786-7448)

**Background:** It is believed that Washington State faces a shortage of affordable housing and that certain tax incentives would encourage and promote the new construction of affordable housing, enabling the state to better meet its growing need.

The sales and use tax are taxes on the use of goods or certain services in Washington. The use tax is complimentary to the sales tax and applies in instances where goods or services are used in this state, but the state sales tax was not paid on the purchase (i.e. garage sales, out-of-state purchases).

**Summary of Bill:** A sales or use tax exemption is created for certain goods and services used in the construction of low-cost housing. The tax exemption is available to sellers of low-cost single-family dwelling units, who sell such units to a "qualified low-income buyer" for use as that buyer's primary residence. Qualified buyers are also eligible for the exemption, if they construct, contract for construction, or buy a low-cost single-family dwelling unit and use that unit for their primary residence.

To be eligible for the tax exemption, the buyer or seller must have paid the sales or use tax on the materials or labor and services used in the dwelling unit's construction. After the unit is

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sold in the case of a seller or the occupancy permit is obtained in the case of a buyer, the taxpayer may apply to the Department of Revenue (DOR) for a 50 percent refund on the state portion of the sales and use tax paid for construction materials; labor and service costs related to construction; and labor and service costs related to fixture installation during construction. A "qualified low-income buyer" is defined as a buyer who has an income of no more than 80 percent of the higher of: (1) the median family income, adjusted for household size, in the county where the dwelling unit is located; or (2) the state median income. Further, the buyer must be an eligible participant in either a home ownership program by the Washington State Housing Finance Commission (Commission) or a government affordable housing program certified by the Commission.

A "low-cost single-family dwelling unit" is defined a single-family dwelling unit, including a condominium, used as the qualified buyer's primary residence that had a listed sales price or an appraisal value (if constructed by the buyer) that is equal to or less than the applicable purchase price limits for new construction in the county where the property is located, as specified in the Commission's homeownership program.

A taxpayer applying for the exemption must submit the information necessary for the Commission to certify whether the low-cost single-family dwelling unit was sold to, or built by, a qualified low-income buyer to be used as that buyer's primary residence. The DOR must determine eligibility for the tax exemption based on certification by the Commission.

**EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Consumer Protection & Housing):** The seller no longer has to collect information from the buyer. Instead, the seller must provide the housing finance commission with the name of the buyer's lender. The lender making the loan to the buyer can only provide the information to the commission or the department. An appraiser must be approved by the commission.

For a home to qualify as a "low-cost single-family dwelling unit," a deed restriction that requires that if the home is sold within 24 months of purchase that the seller must repay the DOR the tax exemption it received under this act must be included in the sales document and disclosed to the buyer.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: This bill would be one more tool in facilitating the building of low-income homes. It would have a positive impact on both the private sector as well as non-profit organizations such as habitat for humanity. It is important to engage the private sector in assisting the issue of low-income housing. Finally, it would help builders abate some of the high costs of building.

**Persons Testifying:** PRO: Kim Herman, Washington State Housing Finance Committee; Curt Adino, Habitat for Humanity, South Puget Sound; Maureen Howard, Habitat for Humanity of Washington State; Nick Federici, Washington Low-Income Housing Alliance.